

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Date: August 28, 2004

Memorandum To: Richmond Behavioral Health Authority

From: Robinson, Farmer, Cox Associates

Regarding: FYE June 30, 2004

In planning and performing our audit of the financial statements of the Richmond Behavioral Health Authority for the year ended June 30, 2004, we considered the Authority's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated August 28, 2004 on the financial statements of the Richmond Behavioral Health Authority. Our comments and recommendations are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bank Reconciliations:

Our audit of the June, 2004 bank reconciliations disclosed that the operating bank reconciliation contained significant unreconciled variances from the Authority's general ledger cash account balance. Upon further review, we determined that the bank account had not been reconciled to the general ledger for most of the fiscal year.

The risk of having significant unreconciled differences in bank reconciliations is that bank transactions may not be properly recorded in the accounting system and funds could be misappropriated and not detected on a timely basis.

We recommend administrative staff not responsible for preparing the bank reconciliations thoroughly review all elements on the bank reconciliations to assure that the reconciliations are properly prepared.

RICHMOND BEHAVIORAL HEALTH AUTHORITY
A Component Unit of the City of Richmond, Virginia
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ VERONA □ CHRISTIANSBURG



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RICHMOND BEHAVIORAL HEALTH AUTHORITY

BOARD OF DIRECTORS

Samuel F. Lillard, Chair

Sandra Fowler-Jones, Vice Chair

William T. Beverly, M.S.W.

Edwin T. Lewis, Jr.

Linda K. Carr

Rev. Delores McQuinn

Francis M. Christian, Ph.D.

Linwood S. Russell, Jr.

Marilyn T. Erickson, Ph.D.

Adelaide Simpson

Michael A. Evans

Rose Stith-Singleton, M.Ed.

Reginald Gordon

H. Gray Wyatt

Leslie Herdegen

PRINCIPAL MANAGEMENT TEAM

Dr. Steven J. Ashby..... Executive Director

Beth Rafferty Director of Mental Health Services

John P. Lindstrom, Ph.D. Director of Assessment, Emergency & Medical Services

James C. May, Ph.D. Director of Substance Abuse Services

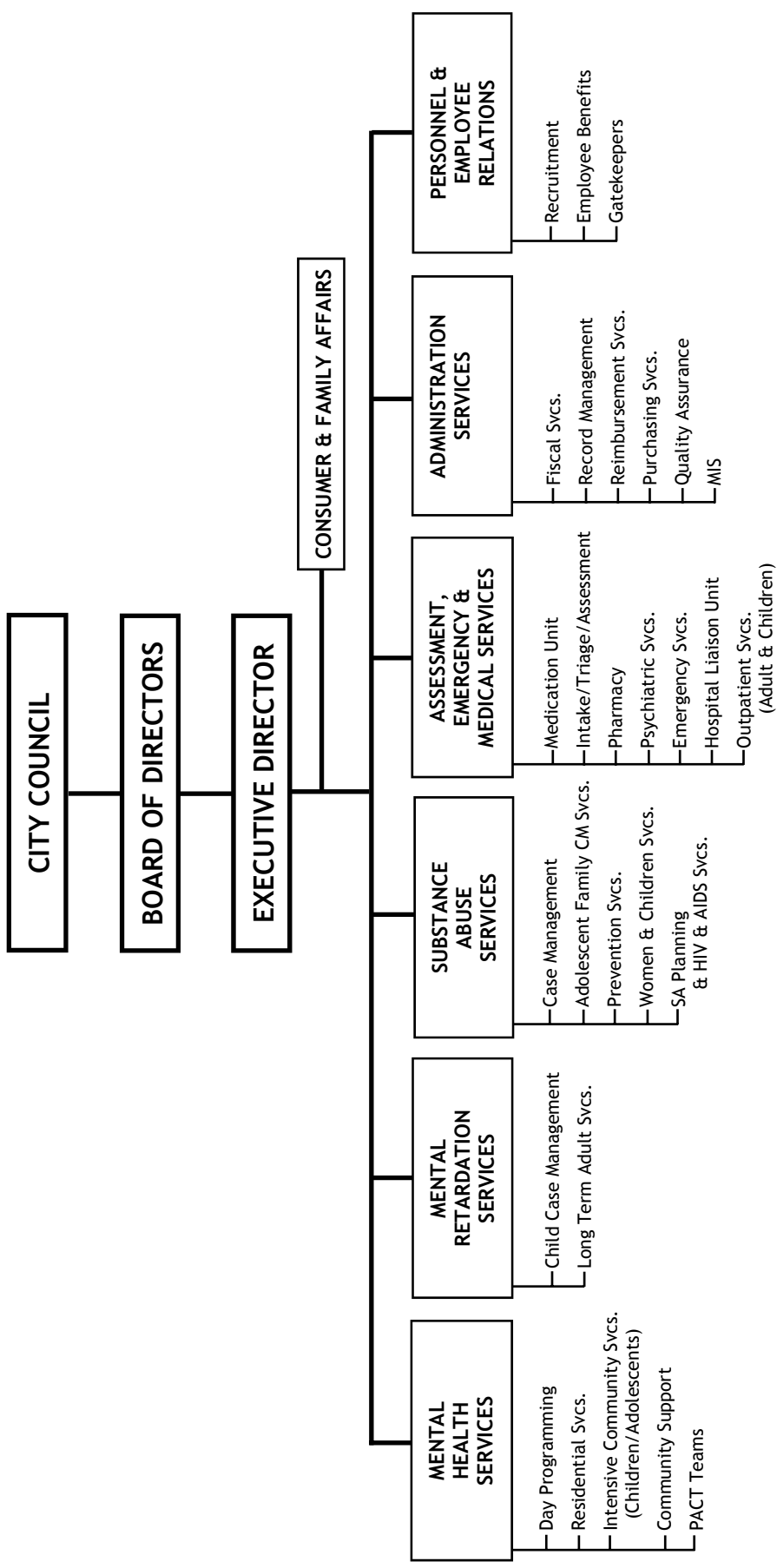
Michael Parker Human Resources Manager

Michael Joseph Director of Administration

Bonita B. Bell, LCSW Director of Mental Retardation Services

ORGANIZATIONAL CHART

RICHMOND BEHAVIORAL HEALTH AUTHORITY



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

**TO THE BOARD OF DIRECTORS
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA**

We have audited the accompanying statement of net assets of Richmond Behavioral Health Authority, and the related statements of revenues, expenses and changes in net assets, and cash flows, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Richmond Behavioral Health Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2003 financial statements, dated August 28, 2003, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Behavioral Health Authority, as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2004, on our consideration of the Richmond Behavioral Health Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Richmond Behavioral Health Authority, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information and other supporting schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Robinson, Jarner, & Associates

Charlottesville, Virginia
August 28, 2004

Management's Discussion and Analysis Year Ended June 30, 2004

Our discussion and analysis of the Richmond Behavioral Health Authority's financial performance provides an overview of the RBHA's financial activities for the fiscal year ended June 30, 2004. Please read this information in conjunction with the RBHA's financial statements.

GENERAL COMMENTS ON FISCAL YEAR 2004

The Fiscal Year ending June 30, 2004 was a successful one for the Richmond Behavioral Health Authority. During that year, operating expenses rose, notably Personnel costs due to a 3% cost of living increase implemented in FY 2004 and a 17% increase in Health Insurance costs. These increases were more than absorbed, however, by the Authority's income stream which also increased. The Authority continues to monitor income and expenses closely to ensure that it operates in a fiscally responsible manner.

As was the case in FY 2003, the Information System of the Authority was upgraded in FY 2004. This year the Accounts Receivable system was completely redone and significantly improved. This improvement, coupled with the automated income posting process, has resulted in our automated record keeping system being much more accurate and reliable. Further upgrades are planned for FY 2005 and FY 2006.

FY 2004 also saw the Richmond Behavioral Health Authority become HIPPA compliant in its billing procedures. In fact, RBHA is the only Community Service Board or Authority in Virginia to have the capacity to bill insurance companies directly in an automated and HIPPA compliant manner.

Plans to transform the operation of the RBHA Pharmacy were begun in FY 2003. They were completed in FY 2004. This process resulted in a savings of more than \$1,000,000 annually without materially affecting service delivery to our clients.

The Richmond Behavioral Health Authority began serving as the Regional Fiscal Manager for the DMHMRSAS Health Planning District IV Reinvestment Program in FY 2004. This Program is intended to keep people out of an institutional setting and in a community-based setting. Phases I and II of the program began operations in FY 2004. Implementation of Phase III will begin at a later date.

A Strategic Business Plan was completed by the Richmond Behavioral Health Authority in FY 2004. This Business Plan was developed by a cross-functional team that solicited input from all levels of staff as well as clients and suppliers. This Plan was approved by the Board and has been successfully implemented. The development of a Strategic Services Plan is planned for FY 2005.

One of the off-site programs administered by the Authority was significantly expanded in FY 2004. The Broad Street Center was completely renovated and expanded by 15% to allow for an increase in the number of clients served.

OVERVIEW OF THE FINANCIAL STATEMENTS

The RBHA presents three basic financial statements. These are: (1) a Statement of Net Assets; (2) a Statement of Revenues, Expenses and Changes in Net Assets; and, (3) a Statement of Cash Flows.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Balance Sheet, which reflects RBHA's assets in relation to its debts to its suppliers, employees and other creditors. The excess of our assets over liabilities is our equity, or net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Information regarding the results of our operation during the year is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement shows how much our overall net assets increased or decreased during the year as a result of our operations.

Our Statement of Cash Flows discloses the flow of cash resources into and out of RBHA during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property, etc.).

FINANCIAL SUMMARY

Financial Position. A summary of the Statement of Net Assets for the Richmond Behavioral Health Authority for 2004 and 2003 is presented below:

Condensed Statement of Net Assets		
	2004	2003
Current assets	\$ 4,535,328	\$ 3,586,499
Property and equipment	1,090,485	1,066,385
Total assets	<u>\$ 5,625,813</u>	<u>\$ 4,652,884</u>
Current liabilities	\$ 2,864,315	\$ 1,859,040
Long-term liabilities	711,177	614,324
Total liabilities	<u>\$ 3,575,492</u>	<u>\$ 2,473,364</u>
Net Assets:		
Invested in capital assets	\$ 1,090,485	\$ 1,066,385
Unrestricted	959,836	1,113,135
Total net assets	<u>\$ 2,050,321</u>	<u>\$ 2,179,520</u>
Total net assets and liabilities	<u><u>\$ 5,625,813</u></u>	<u><u>\$ 4,652,884</u></u>

During FY 2004, Current Assets rose \$948,829, a 26% increase. Cash and Cash Equivalents accounted for the largest share of that gain, rising \$583,436. Accounts Receivable increased \$405,784 while Prepaid Items fell slightly (\$3,383). Pharmacy Inventory fell from \$37,008 to zero as the Pharmacy re-structuring plan begun in FY 2003 was completed.

Property and Equipment increased slightly from \$1,066,385 to \$1,090,485. This constituted an increase of \$24,100 or 2.2%.

During FY 2004, Current Liabilities rose from \$1,859,040 to \$2,864,315. This was an increase of \$1,005,275. This was largely due to an increase in Accounts Payable of \$604,287. Amounts held for Others also rose \$148,167. This was largely the result of RBHA becoming Fiscal Agent for the regional Reinvestment Program in FY 2004. Deferred Income increased \$252,821 due to the funding cycles of a few of our sources of income.

Long Term Liabilities consist solely of Employee Accrued Leave. That liability rose from \$614,324 to \$711,177.

FINANCIAL SUMMARY (continued)

The net result of these changes was a decline in Total Equity from \$2,179,520 to \$2,050,321. As noted above, Capital Assets rose \$24,100 while Unrestricted fell \$153,299.

The financial position of the Richmond Behavioral Health Authority was quite secure as of June 30, 2004. This is evidenced by our strong liquidity and the complete absence of long-term debt. The Quick Ratio (Current Assets/Current Liabilities) of the Authority was 1.58:1 as of June 30, 2004, indicating that there are more than sufficient Current Assets to meet all short-term liabilities.

Change in net assets. A summary of the Richmond Behavioral Health Authority's statement of revenues, expenses and changes in net assets for 2004 and 2003 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets		
	2004	2003
Operating income	\$ 11,415,189	\$ 10,488,324
Operating expenses	28,634,609	26,136,508
Operating income	\$ (17,219,420)	\$ (15,648,184)
Non-operating income	17,090,221	14,961,083
Changes in net assets	\$ (129,199)	\$ (687,101)

Operating Income is defined as the amount of revenue received from providing patient services. The vast majority of those funds are received from Medicaid. During FY 2004, Operating Revenue grew \$926,865 or 9%. This followed similar increase of 9% in Operating Income in FY 2003.

Operating Expenses are comprised of the direct expenses of operating the Authority. These include Salaries and Benefits, Occupancy, Payments to contracting agencies and Depreciation. (Please see the full Statements of Revenues, Expenses and Changes in Net Assets for a complete breakdown of these expenses for FY 2004 and FY 2003.) During FY 2004, Operating Expenses rose \$2,498,101. This increase was largely the result of a rise in Salaries and Benefits of \$1,642,745.

Non-operating Income is comprised of income received as appropriations or grants as well as Miscellaneous Income. In FY 2004, State appropriations constituted 59% of the Non-operating Income. Grants from the Federal Government constituted 31% and appropriations from the City of Richmond constituted 9%. The remaining Non-operating Income represented less than 1% of Total Non-operating Income.

Net Assets declined \$129,199. It should be noted that the Depreciation Expense was \$386,666. The Change in Net Assets before Depreciation is a positive \$257,467. In the prior year, Net Assets declined \$687,101. The Change in Net Assets before Depreciation was a negative \$257,410.

FINANCIAL SUMMARY (continued)

Cash flows. A summary of the Richmond Behavioral Health Authority's statements of cash flows for 2004 and 2003 are presented below:

Condensed Statement of Cash Flows		
	2004	2003
Cash flows from operating activities	\$ (16,096,019)	\$ (15,164,358)
Cash flows from non-capital activities	17,074,961	14,936,498
Cash flows from capital activities	(410,766)	(282,347)
Cash flows from investing activities	15,260	24,585
Net increase (decrease) in cash	\$ 583,436	\$ (485,622)
Cash - beginning of year	1,388,161	1,873,783
Cash - end of year	\$ 1,971,597	\$ 1,388,161

Cash flows from operating activities reconcile the Operating Loss recorded on the Statement of Revenues, Expenses and Changes in Net Assets to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (Depreciation) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions.)

Cash flows from non-capital transactions are comprised of income received as appropriations or grants. The total cash flow from operating activities declined \$931,661. This was offset, however, by an increase of \$2,138,463 in cash flows from non-capital and related financing activities.

Cash flows from capital activities are comprised of all the Capital Assets purchased by the Richmond Behavioral Health Authority in 2004. (Please see Note 5 for a full listing of Capital Assets.) Cash flows from investing activities are comprised of Interest Income.

In FY 2004, Cash and Cash Equivalents increased \$583,436. This followed a loss of \$485,622 in FY 2003. The FY 2004 increase constituted a rise of 42% in cash and cash equivalents. This very significant increase is the greatest example of the fiscal successes enjoyed by the Richmond Behavioral Health Authority in FY 2004.

Capital Asset and Debt Administration

Capital Assets

At the end of FY 2004, the Richmond Behavioral Health Authority had \$1,090,485 in Net Capital Assets. This was comprised of \$3,360,021 in Capital Assets less \$2,269,536 in Accumulated Depreciation. (Please see Note 5). Of the total Furniture and Equipment represent 23%; Information Technology assets constitute 32%; Vehicles constitute 39% while Leasehold Improvements constitute 6%.

In the FY 2003 audit, it was stated that Capital Assets purchased in FY 2004 would be in the \$250,000 to \$300,000 range. The actual amount of those purchases was \$410,766. The difference is attributable to larger than expected automobile purchases necessitated by an aging vehicle fleet. It is anticipated that Capital Expenditures during FY 2005 will again be approximately \$250,000.

Capital Asset and Debt Administration (continued)

Long-Term Debt

As stated in Note 11, the Richmond Behavioral Health Authority has a Line of Credit Agreement with B B & T. That Line of Credit was not used at all during 2004.

Summary

The Statement of Net Assets shows that, on June 30, 2004, the Authority had 1.58 times more Current Assets than Current Liabilities. In addition, we had no Long Term Debt and \$2,050,321 in Total Equity.

The Statement of Revenues, Expenses and Changes in Net Assets show the net assets of the Authority decreased \$129,199 during FY 2004 as a result of our operations. The change in net assets before depreciation, however, was a positive \$257,467. In FY 2003, the change in net assets before depreciation was a negative \$257,410.

Our Statement of Cash Flows shows that Cash and Cash Equivalents increased \$583,436 in FY 2004. This followed a decline of \$485,622 in FY 2003.

As stated above, the financial position of the Richmond Behavioral Health Authority is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. The fiscal position of the Authority was strengthened in FY 2004 as evidenced by the significant increase in net assets before depreciation (positive \$257,467 versus negative \$257,410) and a 42% increase in cash and cash equivalents. This strong liquidity and lack of debt shows our financial position to continue to be strong and secure.

- Basic Financial Statements -

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Statement of Net Assets
At June 30, 2004
(With Comparative Totals for 2003)**

	<u>2004</u>	<u>2003</u>
ASSETS		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 1,971,597	\$ 1,388,161
Accounts receivable, less allowance for uncollectibles	2,235,469	1,829,685
Prepaid items	328,262	331,645
Pharmacy inventory	-	37,008
Total current assets	\$ 4,535,328	\$ 3,586,499
<u>Capital Assets:</u>		
Property and equipment, less accumulated depreciation	1,090,485	1,066,385
Total assets	\$ 5,625,813	\$ 4,652,884
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 1,647,441	\$ 1,043,154
Amounts held for others	394,053	245,886
Deferred revenue	822,821	570,000
Total current liabilities	\$ 2,864,315	\$ 1,859,040
<u>Long-term Liabilities:</u>		
Employee accrued leave	711,177	614,324
Total liabilities	\$ 3,575,492	\$ 2,473,364
<u>Net Assets:</u>		
Invested in capital assets	\$ 1,090,485	\$ 1,066,385
Unrestricted	959,836	1,113,135
Total net assets	\$ 2,050,321	\$ 2,179,520

The accompanying notes to financial statements are an integral part of this statement.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2004

(With Comparative Totals for 2003)

	<u>2004</u>	<u>2003</u>
Operating Revenue:		
Net patient service revenue	\$ 11,415,189	\$ 10,488,324
Expenses:		
Salaries and benefits	\$ 14,361,460	\$ 12,718,715
Staff development	186,134	160,786
Occupancy	1,472,762	1,360,685
Supplies	578,511	589,525
Travel	322,407	313,218
Medical and professional services	1,666,742	2,368,756
Direct client support	2,980,853	2,309,708
Payments to contracting agencies	6,512,713	5,724,851
Depreciation	386,666	429,691
Other	166,361	160,573
Total expenses	\$ 28,634,609	\$ 26,136,508
Operating income (loss)	\$ (17,219,420)	\$ (15,648,184)
Nonoperating income:		
Appropriations:		
Commonwealth of Virginia	\$ 10,157,019	\$ 8,104,378
Federal government	5,313,169	4,990,976
City of Richmond	1,465,000	1,580,081
Interest income	15,260	24,585
Other	139,773	261,063
Total nonoperating income	\$ 17,090,221	\$ 14,961,083
Change in net assets	\$ (129,199)	\$ (687,101)
Net assets, beginning of year	2,179,520	2,866,621
Net assets, end of year	\$ 2,050,321	\$ 2,179,520

The accompanying notes to financial statements are an integral part of this statement.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Statement of Cash Flows
Year Ended June 30, 2004
(With Comparative Totals for 2003)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from customers	\$ 11,147,828	\$ 10,387,986
Payments to suppliers	(12,570,892)	(13,123,348)
Payments to and for employees	(14,672,955)	(12,428,996)
Total cash flows from operating activities	\$ (16,096,019)	\$ (15,164,358)
Cash flows from noncapital and related financing activities:		
Government grants	\$ 16,903,436	\$ 14,675,435
Other	171,525	261,063
Total cash flows from noncapital and related financing activities	\$ 17,074,961	\$ 14,936,498
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (410,766)	\$ (282,347)
Cash flows from investing activities:		
Interest income	\$ 15,260	\$ 24,585
Net increase (decrease) in cash and cash equivalents	\$ 583,436	\$ (485,622)
Cash and cash equivalents, beginning of year	1,388,161	1,873,783
Cash and cash equivalents, end of year	\$ <u>1,971,597</u>	\$ <u>1,388,161</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (17,219,420)	\$ (15,648,184)
Adjustments to reconcile operating income (loss) to cash provided by operations:		
Depreciation	386,666	429,691
Changes in assets and liabilities:		
Accounts receivable	(405,784)	(100,338)
Prepaid items	3,383	(327,799)
Pharmacy inventory	37,008	185,771
Accounts payable and accrued expenses	604,287	283,387
Amounts held for others	148,167	(479,917)
Compensated absences	96,853	5,031
Deferred revenue	252,821	488,000
Cash flows from (to) operating activities	\$ <u>(16,096,019)</u>	\$ <u>(15,164,358)</u>

The accompanying notes to financial statements are an integral part of this statement.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Purpose:

The Richmond Behavioral Health Authority (the Authority) was created on July 1, 1996, to provide behavioral health services to residents of the City of Richmond under applicable sections of the *Code of Virginia* (1950), as amended. Prior to July 1, 1996, the operations of the Authority were conducted by the City of Richmond's (the City) Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) and accounted for as a Special Revenue Fund of the City of Richmond. In July 1996, the City passed a resolution creating the Richmond Behavioral Health Authority in accordance with applicable sections of the *Code of Virginia* (1950), as amended. Pursuant to a transfer agreement between the City and the Authority, the City transferred certain assets and liabilities to the Authority.

B. Reporting Entity:

The Board of Directors of the Authority is appointed by the City of Richmond. The City provides funding to the Authority that satisfies match requirements for state grant funding. The City of Richmond deems the Authority to be a component unit of its financial reporting entity.

C. Enterprise Fund Accounting:

The Richmond Behavioral Health Authority is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Authority utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

D. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less. The Authority maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the *Code of Virginia*. The Act requires financial institutions to meet specific collateralization requirements.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

E. Cash and Cash Equivalents: (continued)

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including repurchase agreements) with a maturity of three months or less when purchased to be cash equivalents.

F. Investments:

Investments are reported at fair value.

G. Accounts Receivable - Client Services:

Revenue and related receivables for health care services are recorded at the Authority's full established rates. Amounts receivable from third-party payors for health care services are usually less than the Authority's full established rates. The realizable amounts are generally determined by contractual agreements with the third party payor (e.g. Medicaid). The provision for contractual adjustments (difference between established rates and third-party payor payments) and discounts (difference between established rates and amounts collectible) are deducted from gross accounts receivable to determine accounts receivable - net client services. An allowance for uncollectible accounts is based on specific account analysis and historical data, and totaled \$128,602 at June 30, 2004.

H. Inventories:

Inventories consist of pharmacy medicines and supplies and are valued at cost on a first-in first-out basis.

I. Capital Assets:

Capital assets acquired which cost \$5,000 or more are recorded at cost and depreciated. Depreciation is provided over the estimated useful life of each class of depreciable asset ranging from 5 to 20 years and is computed using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift.

J. Compensated Absences:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick pay rate regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid, by the Authority, their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual leave recognized as expense is the amount earned during the year.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

K. Operating and Nonoperating Revenues and Expenses:

Operating revenues and expenses result from the providing of services, and include all transactions and other events that are not defined as capital and related financing, noncapital or investing activities. Nonoperating revenues consist primarily of grants, investment and other income. Nonoperating expenses consist of capital and non-capital related financing and other expenses.

L. Net Client Service Revenue:

Net client service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

M. Financial Assistance:

The Authority is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged is based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Authority has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Authority does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

N. Budgetary Accounting:

The Authority follows these procedures in establishing its budgets.

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Authority was required to submit a Performance Contract to the Department for the 2004 fiscal year. This application contains budgets for core services.
2. Prior to September 1, the Performance Contract is submitted to the City of Richmond for review.
3. The Authority's Performance Reports are filed with the Department during the fiscal year, 45 working days after the end of the second and third quarters. The final quarterly report is due by September 15 (unless extended), following the end of the fiscal year.
4. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Authority submits Performance Contract revisions that reflect these changes to the Department.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

O. Comparative Totals:

Comparative amounts for the prior year are presented for informational purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparable presentation with the current year financial reporting presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Cash and cash equivalents were comprised of the following:

Petty cash	\$ 500
Demand deposits	1,970,797
Total	<u>\$ 1,971,297</u>

A. Deposits:

The Authority's cash deposits are covered by federal depository insurance. Deposits in excess of federal depository insurance limits are insured in accordance with provisions of the Virginia Security for Public Deposits Act. The Act requires financial institutions holding public deposits in excess of amounts covered by federal insurance to pledge collateral in the amount of 50% of excess deposits.

B. Investments:

State statutes authorize local governments and other public bodies to invest in obligations of the United States, its agencies and instrumentalities, time certificates of deposit, bankers' acceptances, repurchase agreements, demand notes, and commercial paper.

Investments, including repurchase agreements, are categorized to indicate the level of risk assumed by the Authority. Category 1 includes investments that are insured and registered or for which the securities are held by the entity or the entity's agent in the entity's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or its agent in the entity's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the entity's name.

The Authority had no investments at June 30, 2004.

The Authority does not involuntarily participate in external investment pools.

RICHMOND BEHAVIORAL HEALTH AUTHORITY**Notes to Financial Statements
As of June 30, 2004 (continued)**

NOTE 3 - ACCOUNTS RECEIVABLE:

At June 30, 2004 the Authority had accounts receivable due from the following primary sources.

Virginia Department of Medical Assistance Services (Medicaid)	\$ 1,419,280
Medicare	64,151
Direct client and third party	151,588
City of Richmond - various grants	456,027
Other	273,025
Total	<u>\$ 2,364,071</u>
Less: Allowance for uncollectibles	<u>(128,602)</u>
Net accounts receivable	<u><u>\$ 2,235,469</u></u>

Other than the amounts due for Medicaid charges and amounts due from the City of Richmond, there are no other individually significant sources of receivables.

NOTE 4 - PREPAID ITEMS:

Prepaid items consist primarily of rent and other expenses paid prior to year end which are applicable to the subsequent year.

NOTE 5 - CAPITAL ASSETS:

The following details changes in capital assets:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Furniture and equipment	\$ 748,488	\$ 13,498	\$ -	\$ 761,986
Computers	1,078,451	-	-	1,078,451
Vehicles	984,431	323,835	-	1,308,266
Leasehold improvements	137,885	73,433	-	211,318
Total capital assets being depreciated	<u>\$ 2,949,255</u>	<u>\$ 410,766</u>	<u>\$ -</u>	<u>\$ 3,360,021</u>
Less: Accumulated depreciation	<u>1,882,870</u>	<u>386,666</u>	<u>-</u>	<u>2,269,536</u>
Net capital assets	<u><u>\$ 1,066,385</u></u>	<u><u>\$ 24,100</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,090,485</u></u>

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 6 - RELATED PARTIES:

The Authority was created by the City of Richmond on July 1, 1996. During the year ended June 30, 2004, the Authority paid the City of Richmond \$186,233 for routine services including vehicle maintenance, telecommunications, duplicating, and other services. The City of Richmond also contributed \$1,465,000 in local funds during the year ended June 30, 2004 to support the provision of behavioral health services to City residents. The Authority also received pass-through federal and state grants from the City totaling \$839,678 during the fiscal year. Also, as discussed in Note 12-Retirement Plan, the Authority participates in the City's retirement system and paid contributions to that plan. See Note 12 for details relating to the retirement system.

NOTE 7 - CONTRACT AGENCIES:

The Authority has entered in numerous agreements with various nonprofit and other entities to provide specific program services under purchase of service contracts. Expenses under purchase of service agreements amounted to \$6,512,713 for the year ended June 30, 2004.

NOTE 8 - DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue consists of unexpended amounts received from the State for its Reinvestment Program.

NOTE 9 - CONTINGENCIES:

A. Grants:

The Richmond Behavioral Health Authority operates programs that are typically funded by grants received from federal, state or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor. The Authority believes that the likelihood of disallowance of expenditures and subsequent reimbursement is remote and would not have a material effect on the overall financial position of the Authority.

B. Legal / Litigation:

The Authority may be involved in potential lawsuits arising in the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Authority's financial position.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 10 - OPERATING LEASES:

The Authority leases offices, clinics and apartments for residential programs under various lease agreements. Lease expense for the year ended June 30, 2004, amounted to \$1,194,136.

At June 30, 2004, the approximate annual operating lease commitments (exclusive of Consumer Price Index amounts) are as follows:

Year Ending June 30,	
2005	\$ 1,168,387
2006	1,154,404
2007	1,156,756
2008	727,156
2009	10,213
Total minimum lease payments	<u>\$ 4,216,916</u>

NOTE 11 - LINE OF CREDIT:

The Authority has a \$1,000,000 line of credit agreement with a financial institution. Borrowings are unsecured, payable on demand and pay interest based on the London Inter Bank Offered Rate (LIBOR) plus 2.375% adjusted monthly on the first day of each month. The line of credit commitment has no expiration date. The Authority did not have an outstanding balance under the line of credit at June 30, 2004.

NOTE 12 - RETIREMENT PLAN:

A. Plan Description:

The City of Richmond maintains a single-employer, defined benefit pension plan, Richmond Retirement System (RRS) (the Plan), which covers substantially all Authority employees. Prior to the creation of the Authority on July 1, 1996, substantially all employees were City of Richmond employees and pursuant to the Agreement of Transfer, Authority employees continue to be members of the RRS. The Authority's total covered payroll for the year ended June 30, 2004 was \$9,231,902.

The Plan provides retirement benefits as well as disability benefits. All permanent full time employees must participate in RRS. All benefits vest after 5 years of credited service. A member is eligible for normal retirement on his normal retirement date. Upon service retirement, a member becomes eligible to receive an annual allowance payable in equal monthly installments. The annual allowance is an amount equal to 1.75% of the member's average final compensation multiplied by the number of years of creditable service, up to 35 years. This supplement ceases at age 65. The Plan permits early retirement.

Employees with 30 years of service may retire at any age with unreduced benefits. Employees may retire at age 55 with 5 or more years of service; however, in this instance the benefit will be reduced by 5-1/2% for each complete month by which retirement precedes the earlier of age 65 or the date on which the employee would have completed 30 years of service.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 12 - RETIREMENT PLAN: (continued)

A. Plan Description: (continued)

Employees make no contribution to the Plan. The Authority's contribution, authorized by the Board of Directors is actuarially determined and consists of current costs and amortization of prior service costs over a 20-year period.

B. Contributions and Funding Policy:

The Authority is required to contribute to the Plan, annually, an amount as determined by the actuary (expressed as a percentage of payroll) equal to the sum of the "normal contribution" and the "accrued liability contribution". The accrued liability contribution is determined as that amount necessary to amortize the unfunded actuarial accrued liability and any increase or decrease in the unfunded actuarial accrued liability in future years due to changes in actuarial assumptions, changes in the Plan provisions (including the granting of cost-of-living increases) or actuarial gains or losses amortized over a period of 20 years with payment. During the year ended June 30, 2004, the Authority contributed \$1,014,586 in accordance with contribution requirements determined by an actuarial valuation of the Plan, as of June 30, 2003. The contribution rate was 10.99% for fiscal year 2004.

The following is a schedule of the Authority's contributions for the fiscal years ended June 30, 2001 through 2004:

<u>Fiscal Year Ending</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
June 30, 2001	\$ 646,032	100%
June 30, 2002	699,361	100%
June 30, 2003	932,695	100%
June 30, 2004	1,014,586	100%

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of 20 years.

C. Actuarial Method and Significant Assumptions:

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. For purposes of determining contribution rates, the net realized and unrealized appreciation or depreciation in the market value of assets is recognized over a three year period, with the restriction that the actuarial asset value cannot be less than 90% or greater than 110% of the market value of assets. For purposes of determining the Plan's funded status and other required disclosures, assets are valued at market.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 12 - RETIREMENT PLAN: (continued)

C. Actuarial Method and Significant Assumptions: (continued)

Significant actuarial assumptions used in determining the actuarial accrued liability include: (a) a rate of return on the investment of present and future assets of 8.0% per annum compounded annually, (b) projected salary increases ranging from approximately .5% to 4.00% per year. Salary increases include a 2.5% component for inflation and a variable component for merit increases, and (c) the assumption that benefits will not increase after retirement.

D. Schedule of Funding Progress:

A Schedule of Funding Progress is intended to help users assess the funded status of the Plan and the progress made in accumulating sufficient assets to pay benefits when due. Schedule information for Authority employees is not available. This information is as follows for City employees:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Projected Unit Credit)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6-30-95	\$ 270,490,885	\$ 348,833,284	\$ 78,342,399	77.5%	\$ 131,918,022	59.39%
6-30-96	310,169,773	367,119,515	56,949,742	84.5%	128,683,173	44.26%
6-30-97	360,005,684	421,861,053	61,855,369	85.3%	136,070,924	45.46%
6-30-98	412,971,217	462,219,904	49,248,687	89.4%	140,165,513	35.14%
6-30-99	465,103,794	490,583,194	25,479,400	94.8%	142,065,283	17.93%
6-30-00	527,666,622	534,981,233	7,314,611	98.6%	154,573,238	4.73%
6-30-01	467,662,106	569,347,610	101,685,504	82.1%	158,111,509	64.31%
6-30-02	455,321,428	616,004,735	160,683,307	73.9%	166,777,160	96.35%
6-30-03	439,599,024	634,636,031	195,037,007	69.3%	172,407,094	113.13%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage is, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the Plan.

E. Concentrations:

The Plan does not have investments (other than U. S. Government and agency obligations) in any one organization that represent 5% or more of net assets held in trust for pension benefits.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:

In addition to the pension benefits described in Note 12, the Authority pays a portion of the cost of health-related insurance benefits to all employees who retire from the Authority. The benefits comprise health-related group insurance policies through which retirees, their spouses, and eligible unmarried dependents can obtain coverage. Retirees totaling 8, their spouses, and eligible unmarried dependents were receiving such benefits at June 30, 2004. The Authority's share of health-related premium contributions for the year ended June 30, 2004 was \$30,078. The Authority's share of contributions was charged to expense based on premium cost allocable to the fiscal year period. There were no other changes in the benefit provisions during the fiscal year ended June 30, 2004.

NOTE 14 - CLIENT FEES:

Net patient service revenues were from the following sources:

Medicaid	\$ 10,269,968
Third party	118,664
Other	1,026,557
Total	<u>\$ 11,415,189</u>

NOTE 15 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority participates in a self-insured liability plan sponsored by the state of Virginia for local political subdivisions. The plan provides \$1,000,000 coverage against public official liability claims. The Authority participates in the Virginia Municipal Liability Pool for comprehensive property and casualty coverage, a general liability coverage (claims made), automobile coverage and employer's liability. The Authority also is a member of the Virginia Municipal Group Self Insurance Association and obtains workers compensation coverage for Authority employees. Certain other risks are covered by commercial insurance policies. Management believes the above-described coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE 16 - SURETY BOND INFORMATION:

The Authority is insured under a commercial public officials policy in the amount of \$100,000 that indemnifies the insured against loss of money or property that might result from the fraudulent or dishonest acts of its employees.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements As of June 30, 2004 (continued)

NOTE 17 - ACUTE CARE PROGRAM:

The Authority is the fiscal agent for the Acute Care Program which is funded by state appropriations. The Authority disburses funds received from the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services for program expenses of the multi-jurisdictional consortium consisting of the Authority and Community Services Boards in the region. The amount of these revenues and expenses for fiscal year 2004 were as follows:

Revenues	\$ 2,754,387
Expenses paid to others	(2,574,220)
Unexpended funds - prior year	245,886
Unexpended funds - current year	(394,053)
Authority share of revenues	<u>\$ 32,000</u>

Unexpended program funds are reported as liabilities. The amount of unexpended funds at June 30, 2004 was \$394,053. This is reported as amounts held for others on the statement of net assets.

- Supporting Schedules -

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expendi- tures
<u>Department of Health and Human Services</u>		
Direct payments:		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	* 93.243	\$ 533,509
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	54,652
Cooperative Agreements for State Treatment Outcomes for Performance Pilot Enhancement Studies	93.238	25,729
Temporary Assistance to Needy Families	93.558	147,036
Child Care Block Grant	93.575	116,325
Mental Health Block Grant	* 93.958	479,780
Substance Abuse Prevention and Treatment Block Grant	* 93.959	3,373,023
City of Richmond, Virginia Healthy Start Initiative	93.926	112,413
Total Department of Health and Human Services		\$ 4,842,467
<u>Department of Housing and Urban Development</u>		
Pass-Through Payments:		
City of Richmond, Virginia		
Emergency Shelter Grant	14.231	72,913
Shelter Plus Care	14.238	397,789
Total Department of Housing and Urban Development		\$ 470,702
Total expenditures of federal awards		\$ 5,313,169

* Major program

Basis of presentation:

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB, Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified not considered
to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified not considered
to be material weaknesses? None reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510 (a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance
93.958	Mental Health Block Grant
93.959	Substance Abuse Prevention and Treatment Block Grant

Dollar threshold used to distinguish between Type A
and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2004**

There were no questioned costs reported.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Insurance
June 30, 2004**

Insurance Carrier	Policy Period	Policy Number	Policy Cost	Insurance Coverage
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04	VMLPGL 000473	\$ 16,244	General and professional liability, including medical malpractice \$2,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04		\$ 39,028	Automobile liability \$1,000,000 Uninsured Motorists \$25,000/\$50,000 Medical Payments \$20,000 Comprehensive Actual Cash Value Deductible \$1,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04		\$ 4,973	Excess liability \$1,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04		\$ 1,456	Scheduled property, equipment, boiler, and machinery \$1,213,729 Business Income \$100,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04		\$ 1,039	Fidelity/crime \$100,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/03- 6/30/04		\$ 29,763	Workers Compensation \$1,000,000 per accident \$500,000 disease

- Other Information -

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Computer Systems

The following chart illustrates the status of the Board's implementation and some other key information on its computer systems.

Description / Application	Vendor / Name / Model	Notes / Dev. Stage
General Ledger, Accounts Payable, Financial Statements	CMHC	Fully operational
Reimbursement	CMHC	Fully operational
Fixed Assets	Access	Fully operational
Purchasing	CMHC	Fully operational
Hardware	IBM pSeries GFI server	Fully operational
Operating system	Unix AIX version 4.3	Fully operational
Communication devices	U S Robotics Modem	Fully operational

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Client Statistics
Year Ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Unduplicated Clients Served						
Mental Health	5,023	5,552	5,993	5,553	8,920	5,303
Mental Retardation	1,121	1,214	993	1,083	1,007	907
Substance Abuse	2,342	3,141	3,658	4,365	4,291	3,714
Mental Health Residential Client Days	28,910	26,630	21,190	25,223	23,280	13,016
Mental Retardation Residential Client Days	12,587	18,449	19,625	16,815	16,899	16,630

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Supplemental Information for the Virginia Department of
Mental Health, Mental Retardation and Substance Abuse Services**

**Reconciliation of Revenues and Expenditures of the Fourth Quarter Report
to the Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004**

	<u>State/Local Revenues</u>	<u>Federal Revenues</u>	<u>Expendi- tures</u>
Amounts per Fourth Quarter Reports			
Mental Health	\$ 16,170,583	\$ 508,025	\$ 16,155,615
Mental Retardation	3,476,216	71,873	3,593,676
Substance Abuse	3,686,721	3,476,175	7,162,896
One time grants	56,022	61,213	117,235
Total	\$ <u>23,389,542</u>	\$ <u>4,117,286</u>	\$ <u>27,029,422</u>
Amounts per Statement of Revenues, Expenses and Changes in Net Assets	\$ 23,192,241	\$ 5,313,169	\$ 28,634,609
Client fees adjustment to accrual basis, net Items reported as fees in fourth quarter report			
Accrual adjustments	(67,953)	-	-
Write offs and bad debts	232,733	-	-
Federal items not required to be reported on report to Department of MH, MR & SA Services			
CSAT	533,509	(533,509)	-
GOSAP	19,400	(19,400)	-
CDBG	-	(72,913)	(75,117)
Healthy Start	112,413	(112,413)	-
Shelter Plus	-	(397,789)	(469,359)
JAIBG	-	(15,407)	(74,718)
Interest income	(15,260)	-	-
Other revenue/expenses	(12,641)	-	-
Other items:			
Marshall Center membership	(4,558)	-	(4,000)
DMHMR staff	(18,930)	-	(22,874)
MR Day Care billed	-	(44,452)	-
Acute Care	964,430	-	927,045
Reinvestment	(1,448,465)	-	(1,701,286)
Title IV-E	(97,378)	-	(19,117)
Movers	-	-	(928)
Reduction in drug inventory	-	-	(27,008)
Expense accruals	-	-	12,034
Compensated absences	-	-	(96,853)
Fixed assets capitalized	-	-	410,766
Depreciation expense	-	-	(386,666)
Rounding and other	1	-	(77,106)
Total per fourth quarter reports	\$ <u>23,389,542</u>	\$ <u>4,117,286</u>	\$ <u>27,029,422</u>

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF DIRECTORS
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA

We have audited the financial statements of the Richmond Behavioral Health Authority, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Richmond Behavioral Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Richmond Behavioral Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Richmond Behavioral Health Authority, in a separate letter dated August 28, 2004.

This report is intended solely for the information and use of the Authority management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 28, 2004

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF DIRECTORS
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA

Compliance

We have audited the compliance of the Richmond Behavioral Health Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Richmond Behavioral Health Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Richmond Behavioral Health Authority's management. Our responsibility is to express an opinion on Richmond Behavioral Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Richmond Behavioral Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Richmond Behavioral Health Authority's compliance with those requirements.

In our opinion, the Richmond Behavioral Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Richmond Behavioral Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Richmond Behavioral Health Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Jarner, & Associates

Charlottesville, Virginia
August 28, 2004